Agricultural Economic Report No. 104

FARM REAL-ESTATE CREDIT

An Analysis of Borrowers and Lenders

A report based on the debt portion of the 1960 Census Sample Survey of Agriculture

U.S. DEPARTMENT OF AGRICULTURE • Economic Research Service

PREFACE

This second report based on the 1960 Sample Survey of Agriculture by the U.S. Bureau of the Census concludes the analysis planned by the Farm Production Economics Division, Economic Research Service.

The first report, "Farmers and Their Debts--The Role of Credit in the Farm Economy," U.S. Dept. Agr., Agr. Econ. Rpt.93, June 1966, dealt with total farm credit, irrespective of source. Included were analyses of short-term, intermediate, and long-term debt; how the total farm debt was distributed among various groups of farmers; and other aspects of the farm debt situation.

This report focuses on farm real-estate or farm-mortgage credit, and analyzes the eight types of lenders in detail. The survey on which both reports were based was the first nationwide survey of nearly all kinds of farm debt. Ray G. Hurley, Chief of the Agriculture Division, U.S. Bureau of the Census, supervised the survey. Special tabulations needed for the analysis were prepared by the Division of Data Processing of the Board of Governors of the Federal Reserve System.

Among those who contributed to this report were Mr. Hurley; Fred L. Garlock, formerly of the Farm Production Economics Division, ERS; Martin Planting of the Farm Credit Administration; and Emanuel O. Melichar of the Board of Governors of the Federal Reserve System.

CONTENTS

For sale by the Superintendent of Documents, U. S. Government Printing Office, Washington, D.C., 20402

Washington, D.C. November 1966

SUMMARY

Younger, less-experienced farm operators, with lower incomes and fewer assets, tended to obtain their mortgage financing from individuals rather than institutional lender sources, the study found. These farmers needed larger loans, in relation to their incomes and assets, than most institutional lenders were willing to give. The great bulk of the individuals who extended credit to young farmers and to others were retiring farmers who had owned farms. These persons, when selling their farms, provided the buyers with much of the needed financing. For many of the young borrowers from these individuals, their present loan was probably their first experience with a large debt. Two-fifths of all mortgage borrowers under 35 years of age, and slightly over one-fifth of all mortgage borrowers, were using credit obtained from individual sellers of farms.

There appeared to be a shifting pattern in the sources of credit used by a typical farm-mortgage borrower--first he used long-term credit from a noninstitutional source, such as a land-contract loan from the seller to purchase a farm or part of a farm; later he refinanced the unpaid balance with a commercial lending institution and perhaps obtained additional funds to expand his operations.

The less experienced operators probably turned initially to the noninstitutional creditors, mainly because they desired loans that were large in relation to their net worth and earnings. Commercial lenders were unwilling to grant many such loans but individual lenders, particularly sellers under a land contract, did so in substantial volume. Individuals were major credit sources in the North and the West but not in the South. Like the farmers to whom they made loans, these individuals were typically inexperienced in farm credit matters.

If the young operator was able to build up his assets in relation to his debts, and if the value of his property appreciated, he typically became an acceptable customer to a commercial lender with whom he refinanced his debt. At the time of refinancing he could probably obtain a loan that was not as large (in relation to his improved earnings and assets) as his initial loan from an individual.

Borrowers from the Farmers Home Administration--a Federal lending institution--were much like many of the borrowers from the noninstitutional lenders in usually being young and less experienced, and in obtaining loans that were large relative to the value of their land and their incomes. Borrowers from FHA were generally operating smaller farms than borrowers from individuals. These findings are in keeping with FHA's policy of providing supervised credit to farmers unable to obtain adequate credit from other sources at reasonable rates and terms.

Farm-mortgage debt comprises a little over half of the total debt of farmers. It is used extensively by farm operators not only to purchase and improve land, but also for other purposes, such as refinancing debts and adding major improvements.

Only 7 percent of the value of all farmland and buildings owned by commercial farm operators in December 1960 was mortgaged for as much as one-half of its current value. However, 38 percent of the total major real-estate debt was on these farms. The proportion of their farm-mortgage loans that was on these "heavily indebted farms" varied greatly

among the different lenders. It ranged from 70 percent and 59 percent for land-contract sellers and the Farmers Home Administration to 27 percent and 14 percent for life insurance companies and the Federal land banks. It was evident that many farmers had used only a small part of their potential farm-mortgage borrowing capacity in late 1960; at the same time, some lenders held sizable proportions of loans which were large in relation to current property values which, in turn, had generally been advancing steadily for many years.

The characteristics of outstanding farm-mortgage loans analyzed in this report reflect the age distribution of the loans held by each lender as well as differences among lenders in their lending policies. Furthermore, it is not known what percentage of the farmer-borrowers covered in the sample survey desired to obtain and actually did apply for maximum loans.

The borrowers whose outstanding mortgage debt was equal to 50 percent or more of the value of the farmland and buildings they owned depended more fully on mortgage credit to finance their total farm operations than did the borrowers with smaller mortgage-debt ratios. Borrowers in the 50-percent-and-over indebtedness group had 82 percent of their total debt represented by mortgage debt, compared with 69 percent for the under-50-percent group. At the same time, the most heavily indebted group rented more of the land they operated than did the less heavily indebted groups--41 percent compared with 26 percent. The heavily mortgage-indebted borrowers may not have been using an adequate amount of nonmortgage credit; or lenders may have desired to use mortgage security more extensively in these cases. In any event, it seemed probable that the borrower's total indebtedness--rather than his indebtedness of a particular type--was usually taken into account by both lenders and borrowers in making loans.

Life insurance lending tended to be concentrated on large, high-value grain and livestock farms in the Midwest and West. Federal-land-bank borrowers operated farms that were not as large as those of life insurance company borrowers. Federal land bank and commercial bank loans tended to be smaller, in relation to the assets and earnings of the borrowers, than those loans from any of the other lenders.

FARM REAL-ESTATE CREDIT
An Analysis of Borrowers and Lenders

A report based on the debt portion of the 1960 Census Sample Survey of Agriculture

By Philip T. Allen
Farm Production Economics Division

INTRODUCTION

At the end of 1960, according to estimates made by the Bureau of the Census, about 1.4 million of the Nation's 2.3 million operators of commercial farms were borrowing from 1 or more of 11 groups of credit institutions, individuals, or other sources that provide short-, intermediate-, and long-term credit to U. S. agriculture. 1/ One-half of the farm borrowers owed debt secured by farm real estate.

The amounts of credit of each type supplied by each of the 11 sources at the end of 1960 are shown in table 1. Of the sources, three provided only major real-estate credit, three provided only non-real-estate credit, and five provided both real-estate and non-real-estate credit. The focus of this report is on the eight real-estate credit sources.

Commercial farm operators owed debts totaling $15.2 billion (table 1). Of this, $8.8 billion was classified as "major real-estate debt" and $6.3 billion as "non-real-estate and related debt" (or non-real-estate debt). Operators of noncommercial farms owed about $1.1 billion of major real-estate debt and $0.5 billion of non-real-estate and related debt. This report is mainly concerned with commercial farms.

Because of underreporting and other reasons, there was some difference between the survey debt figures and other estimates of farm debt. The survey figures shown in table 1 have been estimated to account for approximately 98 percent of the U. S. Department of Agriculture estimate of real-estate-secured farm debt, 62 percent of the estimate of non-real estate farm debt, and 81 percent of the estimate of all farm debt on January 1, 1961. 2/

Individuals are shown as three separate groups in this report so that the major real-estate credit provided by individual owners to purchasers of their farms can be separated from the credits provided by individuals who were not sellers.

1/ Commercial farmers are those whose annual sales of farm products are $2,500 or more, and most of those with smaller sales whose principal source of income is farming.
2/ Garlock, Fred L., and Allen, P. T. Technical Appraisal of the 1960 Sample Survey Estimates of Farm Debt. U.S. Dept. Agr., Econ. Res. Serv., ERS-167, 28 pp., June 1964.

Table 1.--Lenders from which commercial farm operators borrowed, and type and amount of outstanding debt, Census Sample Survey of Agriculture, 48 States, December 1960

Lender	Amount: Total debt	Amount: Major real-estate debt 1/	Amount: Non-real-estate debt 2/	Percentage owed to lender: Total debt	Percentage owed to lender: Major real-estate debt 1/	Percentage owed to lender: Non-real-estate debt 2/
	Million dollars	Million dollars	Million dollars	Percent	Percent	Percent
Commercial banks 3/	3,916	1,419	2,498	26	16	39
Life insurance companies	1,953	1,788	4/ 165	13	20	3
Federal land banks	1,757	1,757	---	12	20	---
Individual sellers--mortgage	1,303	1,303	---	9	15	---
Merchants and dealers	1,360	---	1,360	9	---	21
Individual sellers--land contract	1,339	1,339	---	9	15	---
Production credit associations	1,067	---	1,067	7	---	17
Other individuals	944	301	643	6	3	10
Other lending institutions	638	327	311	4	4	5
Farmers Home Administration	779	583	196	5	7	3
Miscellaneous	108	---	108	1	---	2
Subtotal: Financial institutions	10,110	5,874	4,237	67	67	67
Subtotal: Individuals, merchants and dealers, and miscellaneous lenders	5,054	2,943	2,111	33	33	33
Total	15,164	8,817	6,348	100	100	100

1/ Major real-estate debt excludes certain loans reported as secured by real estate that were believed to be mainly for non-real-estate purposes. All loans of merchants, dealers, and production credit associations, including those reported as secured by real estate, were included with non-real-estate and related loans. In this report major real-estate loans are also called "real-estate loans" and "farm-mortgage loans."

2/ This debt is also called "non-real-estate and related debt."

3/ The term used in the survey schedule was "commercial and savings banks."

4/ Presumably these were loans secured by life insurance policies.

Note: Data may vary slightly from one table to another, and parts may not add to totals due to rounding. Debt owed by landlords is excluded.

The sellers are shown as those who sold under a land contract (termed "individual sellers--land contract") and those selling under a mortgage (termed "individual sellers--mortgage"). The great importance of noninstitutional sources of financing is evident in table 1, both for real-estate credit and for other credit.

Although the study is concerned with the major real-estate debts of commercial farmers, it is helpful to examine some of the non-real-estate debts of these borrowers. These two types of credit sometimes serve similar needs. The total indebtedness of a borrower may be more significant than his indebtedness of a particular type.

As shown in table 2, about two-thirds of the operators with mortgage debt also owed non-real-estate debt. About two-fifths of all commercial farm operators with non-real-estate debt also owed real-estate debt. If tenants (who owed no real-estate debt on the farms they operated) are excluded, about three-fifths of the commercial farm operators with non-real-estate debt also owed mortgage debt. 3/

The sample survey was made near the end of the year, in November and December 1960. Seasonal indebtedness owed by some farmers, largely not secured by farm real estate, would have been completely retired before the survey date; real-estate indebtedness, which is usually longer term, would vary but little seasonally. Thus, the number of borrowers with real-estate indebtedness was probably higher in relation to the number of borrowers with non-real-estate indebtedness on the date of the survey than it would have been earlier in the year. Similarly, the proportion of real-estate borrowers who also owed non-real-estate indebtedness would probably have been higher than two-thirds if the survey had been conducted in the summer.

Many owner-operators with small debts had only non-real-estate debts, while operators who owed large debts frequently owed both real-estate and non-real-estate debt. The larger average size of debt of major real-estate borrowers is shown in table 2.

This study examines the groups of borrowers who obtained the principal part of their loan funds from each of the eight sources of farm mortgage credit. 4/ "Who are the borrowers from each source?" is the question initially asked, and it is studied in such terms as the regional location of the borrowers, the types and sizes of their farms, their ages, and the number of years they had operated their present farms.

A closely related question is "What kinds of loans do the borrowers from each source receive?" This is studied with reference to the amount of the total outstanding debt owed, the amount owed to the principal credit source and the portion this constituted of the total debt, and the relation of the amount of the debt to the value of the borrower's farmland and buildings and to his farm and off-farm earnings.

3/ The debt data obtained in the survey pertained to the farm operated personally by the operator. Actually, tenants sometimes do own farms that they do not operate, and have mortgage debt on these farms. See footnote 6, page 6.

4/ For borrowers who owed major real-estate debt to more than one source, the principal source was defined as the one to whom the borrower owed the largest debt of this type. Thus, each borrower is associated with only one credit source. This aspect is discussed further in the section on "one-stop" credit.

Table 2.--Commercial farm operators: Those owing different types of debt and amounts owed, Census Sample Survey, 48 States, December 1960

Debt status of operator	Number of farm operators	Major real-estate debt	Non-real-estate and related debt	All debt: Total	All debt: Average per operator	
	Thousands	Million dollars	Million dollars	Million dollars	Dollars	
Operators with major real-estate debt only	233	2,446	---	2,446	10,486	
Operators with non-real-estate and related debt only	703	---	3,157	3,157	4,491	
Operators with both types of debt	504	6,370	3,190	9,560	18,962	(12,635 RE (6,327 non-RE
All operators with debt	1,440	8,817	6,348	15,164	10,531	
All operators with major real-estate debt	737	8,817	3,190	12,007	16,281	(11,955 RE (4,326 non-RE
All operators with non-real-estate and related debt	1,207	6,370	6,348	12,718	10,537	(5,278 RE (5,259 non-RE
Operators with no debt	820	---	---	---	---	
All operators	2,261	8,817	6,348	15,164	6,707	

Note: Data may vary slightly from one table to another, or within a table, due to rounding.

RELATIVE IMPORTANCE OF THE CREDIT SOURCES

Detailed information was obtained in the survey, permitting comparisons of the relative importance of the five institutional sources and the three noninstitutional sources of major real-estate credit. Previously, because of lack of comprehensive data, the importance of the different lenders could be shown only by the number of mortgage loans, or the amount of mortgage loans, held by each lender.

Each of the institutional lenders, except "other lending institutions," was a fairly homogeneous, specific group. Other lending institutions included several different lenders such as building and loan associations, mortgage loan companies, State loan agencies, and other small institutional lenders. "Other individuals"--those who extended credit not connected with the sale of a farm they had once owned--were probably the most heterogeneous and the smallest of the three groups of individuals.

In contrast to institutional lenders, individuals who held farm mortgages in most cases held only one mortgage, and moneylending was not their main business. Usually, the mortgage they held came from the sale of a farm they once owned, or perhaps from lending money to a son or other relative to assist him in getting started in farming. Individual lenders would be expected to be much less well versed than institutional lenders in lending techniques, appraisals, and other matters associated with farm-mortgage lending, but they were probably well acquainted with local farming conditions and perhaps with the purchasers of their farms.

For these individuals the interest return on their loans was often secondary among the motives that gave rise to making the loan. In many cases, credit was necessary in selling the farm they owned, and the most important consideration may have been a favorable price for the property, tax benefits that resulted from spreading the sale proceeds over a period of years, or helping a relative or friend. On land-contract transactions, ease of repossession in case of default and prospects of further rise in farmland prices may have been considered by the seller to offset some of the larger risks resulting from the typically low downpayments.

The Farmers Home Administration (FHA) is an agency of the Federal Government whose programs include the making of mortgage loans for buying land or building houses. Loans are made to eligible farmers, including beginning farmers, who can show that they are unable to obtain adequate credit on reasonable terms from some other lender (in recent years FHA lending has been broadened to include certain types of loans to nonfarm residents). Borrowers are provided with farm management guidance and other assistance by FHA personnel. Loan funds are provided by the U.S. Treasury, or by private lenders on an insured basis. These insured loans were reported by survey correspondents as owed to the Farmers Home Administration rather than to the private lender. On January 1, 1961, FHA farm-housing loans constituted about 30 percent of the dollar amount of all FHA farm-mortgage loans to individuals; these loans could not be separated in the survey from other FHA loans. A little over one-third of all FHA loans were insured.

At the end of 1960, as shown in figure 1, slightly less than one-half of the value of all operator-owned land in commercial farms in this

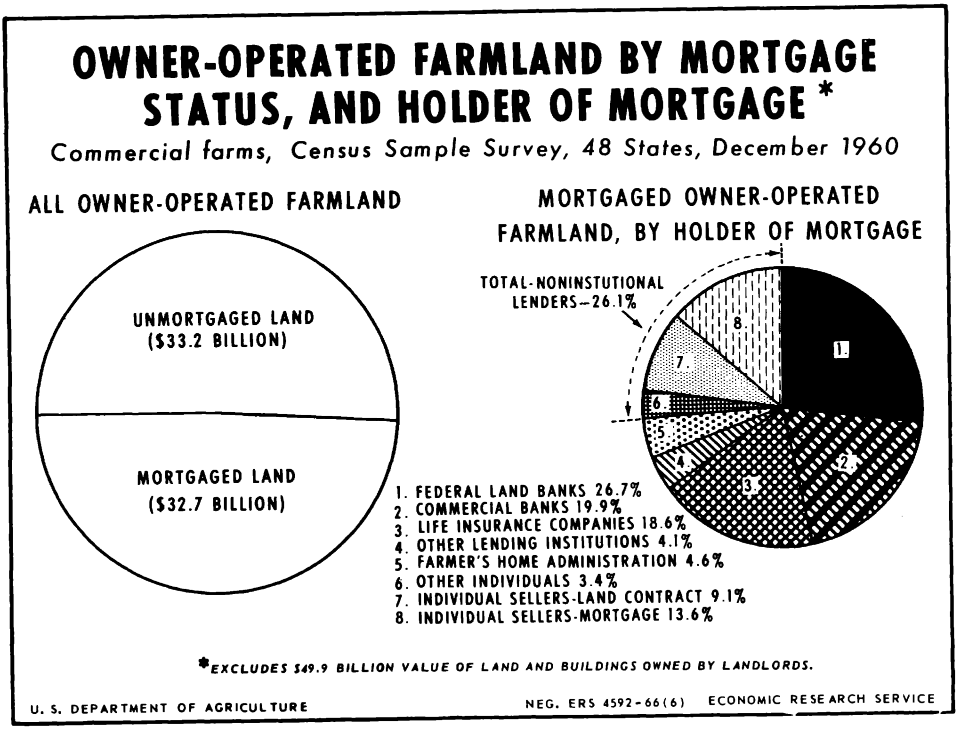

Figure 1

country was mortgaged (including farmland sold by contract); 50.4 percent of the farmland had no operator real-estate debt. 5/ The importance of the different lenders is indicated by the amount of land that was owned by the borrowers of each lender (fig. 1).

In terms of the value of mortgaged land, the Federal land banks were the most important lenders in late 1960 by a substantial margin, followed by commercial (and savings) banks and life insurance companies. Noninstitutional lenders as a group held mortgages on 26 percent of the land, with individual sellers of farms under a mortgage the most important --about half of this portion. Institutional lenders supplying a small proportion of total mortgage credit included the Farmers Home Administration and other lending institutions.

Comparisons of the different sources of credit are given in table 3. In terms of the total numbers of operators owing mortgage debt, commercial banks were nearly as important as the Federal land banks, while insurance companies were slightly less important than individual sellers of farms under a mortgage.

Measured by the amount of mortgage debt owed by commercial farm operators to each principal lender, the Federal land banks and the life-insurance companies were equal, each supplying one-fifth of the total.

5/ In this report, "operator debt" is defined as the debt owed by a farm operator in connection with the farm he was operating at the time of the survey. Some farm operators owned land other than the land in the farm they operated; they may have been indebted on this land that they rented to others. All of this latter debt is termed "landlord debt," even though some of it was owed by a landlord who was also a farm operator.

Table 3.--Number of farm operators with major real-estate debt, and other selected comparisons, by principal lender, commercial farms, Census Sample Survey, 48 States, December 1960

Principal lender	Number of operators	Value of land and buildings owned	Total net cash income--net farm income--plus off-farm income1/	Total debt owed all lenders	Major real-estate owed to lender of largest debt
	Thousands	Million dollars	Million dollars	Million dollars	Million dollars
Federal land banks	186	8,727	1,072	2,449	1,638
Commercial banks	177	6,515	942	1,995	1,418
Life insurance companies	89	6,091	627	2,345	1,638
Individual sellers--mortgage	95	4,446	576	1,741	1,185
Individual sellers--land contract	68	2,988	407	1,733	1,283
Farmers Home Administration	53	1,514	2/---	798	583
Other lending institutions	36	1,349	272	515	327
Other individuals	32	1,108	170	432	301
Subtotals:					
Institutional	541	24,196	3,106	8,102	5,604
Noninstitutional	195	8,542	1,153	3,906	2,769
Total	737	32,738	4,261	12,007	8,373
	Percentage distribution				
Federal land banks	25	27	25	20	20
Commercial banks	24	20	22	17	17
Life insurance companies	12	19	15	20	20
Individual sellers--mortgage	13	14	14	14	14
Individual sellers--land contract	9	9	10	14	15
Farmers Home Administration	7	5	2/---	7	7
Other lending institutions	5	4	6	4	4
Other individuals	4	3	4	4	4
Subtotals:					
Institutional	73	74	73	67	67
Noninstitutional	26	26	27	33	33
Total	100	100	100	100	100

1/ Total net cash income consists of net cash farm income of the farm operator plus (net) off-farm earnings of the farm operator and members of his family living in his household. Net cash farm income was obtained by subtracting cash operating expenses (including interest but excluding capital outlays) from the value of the operator's share of farm products. The operator's share was the total value of farm products sold (or to be sold) less rental payments.
2/ Dashes indicate inadequate or incomplete data.

Note: Data may vary slightly from one table to another, or within a table, due to rounding. In tables 1 and 2 total major real-estate debt owed by operators of commercial farms was shown as $8,817 million. This amount was $444 million greater than the total of $8,373 million shown in this table. The $8,373 million is the amount of operators' largest major real-estate debt. The $444 million is the amount owed by these operators on other than their largest major real-estate debt--their second largest debt, third, etc. In this report the lender that provides the largest loan is sometimes referred to as the "principal source" and lenders supplying smaller amounts of credit as "supplemental sources."

Commercial banks were next at about one-sixth, and the two important subdivisions of individuals each provided about one-seventh. Noninstitutional sources in total (the three groups of individual lenders) furnished one-third of the total mortgage credit.

Some comparative characteristics of the different lenders, in addition to their relative importance, are shown in table 3. For example, one can compare, for the different lenders, the proportions each holds of the total owned land, or of income--subjects to be examined in more detail later. Federal land banks and commercial banks supplied proportionately less credit (20 and 17 percent, respectively) than the value of the land owned by their borrowers (27 and 20 percent), or the total income earned by their borrowers (25 and 22 percent). Life insurance companies were in a somewhat intermediate position, with about the same proportion of major real-estate credit as of owned land (20 and 19 percent), but their borrowers earned only 15 percent of total net cash farm and off-farm income. The Farmers Home Administration and individual sellers under land contract were at the other extreme of these comparisons, furnishing large amounts of credit in relation to the value of land owned by their borrowers.

Borrowers from sellers of farms under a mortgage and from "other individuals" owed debts that were supported by about the same relative value of land and relative amount of income as prevailed for borrowers from commercial sources, like life insurance companies or banks. In this respect, they resembled borrowers from commercial lenders more than borrowers who were financed by sellers under land contracts.

The distribution of total debt owed by borrowers from the different lenders was similar to the distribution of the major real-estate debt owed to the sources of the largest debt of this type (table 3). This means that the borrowers from each source augmented their credit from their principal mortgage source with similar proportions of other credit (non-real-estate credit and supplemental mortgage borrowing).

Area

There was substantial regional variation in the ranking of the different credit sources. The Federal land banks, the Nation's largest lender in terms of the number of commercial farm operators served, were relatively most important in the West. 6/ The land banks served nearly three-fourths more farmers in the West than did any other lender (table 4), and were the chief source of major real-estate credit to approximately one-third of all major real-estate borrowers in that area. About one-fourth of the dollar amount of major real-estate credit in the West was provided by the land banks, since the average amount of credit of each land-bank borrower was less than the average of all major real-estate borrowers.

In the South and the North, commercial banks had the greatest numbers of borrowers. Insurance companies had more dollar amounts of loans than banks or any other lender group in both the North and the South, especially in the South.

6/ The West was defined to include North Dakota, South Dakota, Nebraska, Kansas, Oklahoma, Texas, and all States to the West of these; the South included Arkansas, Tennessee, Kentucky, Virginia, Maryland, Delaware, and States to the South; and the North consisted of the remaining States. Alaska and Hawaii were not included in the survey.

Table 4.--Number of borrowers from principal lenders, amounts borrowed, and percentage distribution, United States and regions, commercial farms, Census Sample Survey, 48 States, December 1960

Principal lender	Number of borrowers: United States	Number of borrowers: North	Number of borrowers: South	Number of borrowers: West	Percentage distribution of borrowers from specified lenders: United States	Percentage distribution of borrowers from specified lenders: North	Percentage distribution of borrowers from specified lenders: South	Percentage distribution of borrowers from specified lenders: West
	Thousands				Percent			
Federal land banks	186	68	38	80	25	21	24	32
Commercial banks	177	85	45	47	24	26	28	19
Individual sellers--mortgage	95	39	21	34	13	12	13	13
Life insurance companies	89	47	16	26	12	14	10	10
Individual sellers--land contract	68	35	4	29	9	11	3	11
Farmers Home Administration	53	19	18	16	8	6	12	6
Other lending institutions	36	14	10	11	5	4	6	5
Other individuals	32	18	6	9	4	6	4	4
Total	737	325	159	253	100	100	100	100
	Amount borrowed				Percentage distribution of amount borrowed from specified lenders			
	Million dollars				Percent			
Federal land banks	1,638	490	264	883	20	15	19	24
Commercial banks	1,418	601	250	568	17	18	18	16
Individual sellers--mortgage	1,185	386	178	621	14	12	13	17
Life insurance companies	1,638	667	372	599	20	20	27	16
Individual sellers--land contract	1,283	636	108	540	15	19	8	15
Farmers Home Administration	583	237	135	211	7	7	10	5
Other lending institutions	327	143	51	133	4	4	4	4
Other individuals	301	166	34	102	4	5	2	3
Total	8,373	3,326	1,392	3,657	100	100	100	100

Note: Data may vary slightly from one table to another, or within a table, due to rounding.

One outstanding characteristic of major real-estate credit sources in the South was the limited role of individual lenders. Their relative dollar volume of lending in the South and in the other two regions is shown in the following distribution:

Principal lender	U.S.	South	North	West
	Percent			
Individuals--land contract	15	8	19	15
Individuals--mortgage	14	13	12	17
Other individuals	4	2	5	3
Subtotal--noninstitutional lenders	33	23	36	35
All institutional lenders	67	77	64	65
All	100	100	100	100

Individual sellers of farms provided financing to buyers under a land contract much less frequently in the South than in the other two regions. At the same time, the other two individual lender groups provided no offset to the reduced amount of land-contract financing. Only 23 percent of the major real-estate credit in the South was supplied by individuals, compared with about 35 percent in the other two regions. Individual sellers under a land contract provided a very low-equity type of financing, compared with loans made by the two other groups of individuals, or by most of the institutional lenders. The lack of low-equity financing, or its equivalent, may have been a serious handicap to Southern farm operators, particularly young farmers and others just getting established in farming, or to farmers seeking to expand their operations. 7/

The Farmers Home Administration supplied a slightly larger proportion of total mortgage financing in the South than in the other regions. FHA provided 10 percent of the loan volume in the South, compared with 7 percent in the North, and 5 percent in the West (table 4).

Type of Farm

Major real-estate borrowers from life insurance companies and, to a lesser extent, borrowers from individuals under land contracts tended

7/ The distribution shown by the survey for major real-estate debts owed by operators of commercial farms differed substantially in several instances from USDA estimates of total farm-mortgage debt. A relatively low proportion of noninstitutional farm-mortgage debt in the South, however, was indicated in both the survey figures and in the USDA figures.

to be concentrated on particular types of farms (table 5). The life insurance companies showed a strong preference for loans on livestock farms other than poultry and dairy, and for cash grain farms. Some 67 percent of the number of borrowers from life-insurance companies operated these two types of farms; the relative importance of these types of farms among all mortgage-indebted commercial farm operators, other than insurance-company borrowers, was 41 percent. The preference of life insurance companies for these farms probably reflected a policy of many life insurance companies--to concentrate their lending on larger and more valuable farms where loans of large size could be made. These two farm types are much above the average of all farms in size and value. Life insurance companies had relatively few loans outstanding to dairy farmers or to the group termed "other."

Among cotton and tobacco farmers, there were very few individuals selling under a land contract; this was related to the small role of such financing in the South. Land-contract sellers were of above average importance on dairy and livestock farms other than poultry. Farmers Home Administration lent more frequently on tobacco, cotton, and dairy farms than on other farm types.

Age of Borrower

Over one-fourth of the dollar volume of outstanding major real-estate loans from sellers of farms under land contract was owed by borrowers who were under 35 years of age on the date of the survey (table 6). This group--whose age averaged 30 years--had operated their present farms an average of 7 years. Probably for many in this group, the major real-estate debt they owed on the date of the survey was the first such debt they had owed.

Individual sellers under a mortgage, the Farmers Home Administration, other lending institutions, and other individuals each had about one-fifth of their loan volume owed by young borrowers. The three large lending institutions--Federal land banks, life insurance companies, and commercial banks--each had under one-tenth of their loans owed by young borrowers. As in the section of this report dealing with loan ratios, the young borrowers from these institutions had larger equities and borrowed relatively less than the young borrowers from individuals and FHA.

Probably many young borrowers, who initally are unable to qualify for a loan from one of the major lending institutions, become able to do so at a later time. It appears that many young borrowers were able to reach this improved position because they obtained loans from an individual or the Farmers Home Administration, and used the loan funds constructively to build up their farms.

Fourteen percent of the borrowers did not report their age. It might have been expected that the older borrowers more frequently failed to report their age than did the younger borrowers. However, judging by the years-on-farm of each age group, the borrowers not reporting their ages were younger than average.

Table 5.--Number and percentage of major real-estate borrowers on different types of commercial farms, by principal lender, Census Sample Survey, 48 States, December 1960

Principal lender	Commercial, all types	Livestock, except dairy and poultry	Other 1/	Dairy	Cash grain	Tobacco	Cotton
	1,000 operators						
Federal land banks	186	52	38	40	33	11	12
Commercial banks	177	37	44	42	29	17	8
Individual sellers--mortgage	95	21	25	20	14	6	9
Life insurance companies	89	33	11	10	27	4	4
Individual sellers--land contract	68	22	15	16	13	0	2
Farmers Home Administration	54	11	12	15	5	6	5
Other lending institutions	36	9	9	6	6	3	3
Other individuals	33	6	9	10	5	2	1
Total	737	191	163	158	133	48	45
	Percent						
Federal land banks	100	28	20	22	18	6	6
Commercial banks	100	21	25	24	16	10	5
Individual sellers--mortgage	100	22	26	21	15	6	9
Life insurance companies	100	37	12	11	30	4	4
Individual sellers--land contract	100	32	22	24	19	0	3
Farmers Home Administration	100	20	22	28	9	11	9
Other lending institutions	100	25	25	17	17	8	8
Other individuals	100	18	27	30	15	6	3
Total	100	26	22	21	18	7	6

1/ Other farms included field-crop farms, except cotton, tobacco, and cash grain farms; vegetable farms, fruit and nut farms; poultry farms; and general farms.

Note: Data may vary slightly from one table to another, or within a table, due to rounding.

Table 6.--Amounts of major real-estate debt outstanding by age of borrower and by principal lender, commercial farms, Census Sample Survey, 48 States, December 1960

Principal lender	Total	Age of borrower: Under 35 years 1/	35 to 54 years	55 years and over	Age not reported
	Million dollars	Million dollars	Million dollars	Million dollars	Million dollars
Amount loaned by:					
Federal land banks	1,638	111	851	555	121
Life insurance companies	1,638	100	810	415	313
Commercial banks	1,418	131	782	350	156
Individual sellers--land contract	1,283	349	601	82	251
Individual sellers--mortgage	1,185	247	530	181	228
Farmers Home Administration	583	116	404	30	34
Other lending institutions	327	60	166	46	55
Other individuals	301	50	170	47	34
Total	8,373	1,164	4,314	1,706	1,192
	Percent	Percent	Percent	Percent	Percent
Percentage loaned by:					
Federal land banks	20	10	20	33	10
Life insurance companies	20	9	19	24	26
Commercial banks	17	11	18	20	13
Individual sellers--land contract	15	30	14	5	21
Individual sellers--mortgage	14	21	12	10	19
Farmers Home Administration	7	10	9	2	3
Other lending institutions	4	5	4	3	5
Other individuals	4	4	4	3	3
Total	100	100	100	100	100
	Percent	Percent	Percent	Percent	Percent
Distribution by age of borrower among:					
Federal land banks	100	7	52	34	7
Life insurance companies	100	6	49	25	19
Commercial banks	100	9	55	25	11
Individual sellers--land contract	100	27	47	6	20
Individual sellers--mortgage	100	21	45	15	19
Farmers Home Administration	100	20	69	5	6
Other lending institutions	100	18	51	14	17
Other individuals	100	17	57	16	11
Total	100	14	52	20	14

1/ The data shown in fig. 2 (page 33) differ from those shown here. In fig. 2, the data were adjusted to include an estimate of the loans held by borrowers who did not report their ages.

Note: Data may vary slightly from one table to another, or within a table, due to rounding.

Number of Years Borrower Had Operated Present Farm

The relative importance of the different lender sources for borrowers who had operated their present (1960) farms less than 5 years varied somewhat like that of young borrowers, except the differences were much less pronounced (table 7). These smaller differences may have been caused by substantial numbers of farmers moving from one farm to another during their lifetimes. When a move occurred, of course, the number of years-on-present-farm would drop to zero. Often a move to a new farm would be accompanied by the incurring of a new mortgage debt, or assuming one, on the new farm being occupied.

The fact that the "under 5 years" group was much larger in terms of proportion of total loan volume than the "under 35 years" group in table 6 (26 percent compared with 14 percent) indicated that the under-5-years group included many operators who were not just starting in farming. In fact, the average age of these borrowers was 42 years, in contrast to an average of 30 years for the youngest age group.

CHARACTERISTICS OF BORROWERS

Figures for all of the borrowing groups show a characteristic that these mortgage-indebted farms share with many American farms--the large amount of investment in land that farmers need to produce the modest incomes they receive (table 8). Many operators of these mortgaged commercial farms, after their costs including interest were paid, could not have very large amounts available for family living, debts, and investments.

As shown in table 8, farms operated by borrowers from life insurance companies averaged about one-half larger--whether measured by acreage or by value of land and buildings operated--than the average of all commercial farms operated by borrowers with major real-estate debt. Gross and net farm incomes earned in 1960 by life insurance company borrowers were well above the average of all borrowers.

The value of the land and buildings on farms operated by borrowers from individual sellers of farms under a mortgage averaged $70,000, about one-fourth less than those of life insurance company borrowers, but larger than those of the borrowers from any of the other lenders. Farms of borrowers of the remaining important lenders varied within a small range --from $61,000 for Federal land bank borrowers to $54,000 for commercial bank borrowers.

Borrowers from other individuals and FHA had lower gross incomes and operated farms that were smaller than those of the other borrowers.

On the average, the use of mortgage credit was less common among owners of small commercial farms than among owners of the larger farms. About one-third (35 percent) of the owner-operators of farms with land and buildings valued at less than $25,000 had mortgage debt in late 1960; this can be compared with a mortgage debt frequency of 50 percent among those who operated properties valued at $25,000 to $100,000, and with 58 percent for the group who operated properties valued at $100,000 or more. Many of the commercial farm operators on smaller farms were not using mortgage credit to expand their operations and their earnings, despite their seemingly greater need.

Table 7.--Amounts of major real-estate debt outstanding, by number of years borrower had operated present farm, and by principal lender, commercial farms, Census Sample Survey, 48 States, December 1960

Principal lender	Total	Years on present farm: Under 5 years	5 to 14 years	15 years and over	Years not reported
	Million dollars	Million dollars	Million dollars	Million dollars	Million dollars
Federal land banks	1,638	188	480	934	36
Life insurance companies	1,638	437	542	654	5
Commercial banks	1,418	319	469	627	4
Individual sellers--land contract	1,283	590	442	244	8
Individual sellers--mortgage	1,185	424	483	265	12
Farmers Home Administration	583	81	374	120	8
Other lending institutions	327	71	134	122	0
Other individuals	301	86	83	129	3
Total	8,373	2,196	3,007	3,095	76
	Percentage distribution of debt by years as operator				
	Percent	Percent	Percent	Percent	Percent
Federal land banks	100	12	29	57	2
Life insurance companies	100	27	33	40	---
Commercial banks	100	23	33	44	---
Individual sellers--land contract	100	46	34	19	1
Individual sellers--mortgage	100	36	41	22	1
Farmers Home Administration	100	14	64	21	1
Other lending institutions	100	22	41	37	0
Other individuals	100	43	29	28	1
Total	100	26	36	37	1
	Percentage distribution of debt by principal lender				
	Percent	Percent	Percent	Percent	Percent
Federal land banks	20	9	16	30	47
Life insurance companies	20	20	18	21	7
Commercial banks	17	15	16	20	5
Individual sellers--land contract	15	27	15	8	11
Individual sellers--mortgage	14	19	16	9	16
Farmers Home Administration	7	4	12	4	11
Other lending institutions	4	3	4	4	0
Other individuals	4	4	3	4	4
Total	100	100	100	100	100

Note: Data may vary slightly from one table to another, or within a table, due to rounding.

Table 8.--Average size of farm, income, and debt of operators of commercial farms who borrowed from the different major real-estate lenders, Census Sample Survey, 48 States, December 1960

Principal lender	Land and buildings		Operator's share of farm products sold	Income		Debt	
	Value	Acres		Net cash farm income	Total net cash income	Total	Major real-estate debt owed to principal lender
	Dollars	Number	Dollars	Dollars	Dollars	Dollars	Dollars
Life insurance companies	96,592	792	19,753	4,419	7,011	26,201	18,305
Individual sellers--mortgage	69,260	513	15,508	3,704	6,066	18,340	12,481
Federal land banks	61,054	677	13,641	3,713	5,758	13,148	8,795
Individual sellers--land contract	60,008	662	14,736	4,001	5,961	25,351	18,775
Other lending institutions	56,386	456	14,911	3,740	---	14,410	9,143
Commercial banks	53,540	447	15,215	3,290	5,325	11,274	8,012
Other individuals	44,681	326	13,922	3,230	5,225	13,289	9,272
Farmers Home Administration	36,433	283	10,171	---	---	14,972	10,951
Average of all lenders	61,796	559	14,925	3,582	5,777	16,281	11,361
	Index (average of all lenders = 100)						
Life insurance companies	156	142	132	123	121	161	161
Individual sellers--mortgage	121	92	104	103	105	113	110
Federal land banks	99	121	91	104	100	81	77
Individual sellers--land contract	97	118	99	112	103	156	165
Other lending institutions	91	82	99	104	---	88	80
Commercial banks	87	80	102	92	92	69	71
Other individuals	72	58	93	90	90	82	82
Farmers Home Administration	59	51	68	---	---	92	96
Average of all lenders	100	100	100	100	100	100	100

Note: Data may vary slightly from one table to another, or within a table, due to rounding. Dashes indicate inadequate or incomplete data.

At the same time, farm operators on smaller properties who did have mortgage debt borrowed, on the average, a larger portion of the owned value of the land and buildings than did operators of the medium-size and large farms. The major real-estate debt of the indebted operators who operated farms of less than $25,000 (value of land and buildings) was equal to 38 percent of the value of their owned real estate--compared with 30 percent for the $25,000-$99,999 group, and 22 percent for the $100,000 and over group.

For all operators of commercial farms with mortgage debt, 13 percent operated farms on which the value of the owned and leased land was $100,000 or more, 51 percent were in the $25,000-$99,999 value group, and 36 percent were in the smallest group. Borrowers on the largest farms owed 36 percent of the total farm-mortgage debt of all commercial farm operators, the middle group owed 49 percent, and the smallest farm size group 15 percent.

The smaller-volume lenders--the Farmers Home Administration, other institutions, and other individuals--had a higher percentage of their total loans on small properties than did any of the other lenders. Thus, nearly one-half of the borrowers from these sources were on farms with value of land and buildings operated of $25,000 or less. About one-third of Federal land bank borrowers and borrowers on land contract were on such properties. Only 18 percent of the borrowers from life insurance companies were on small properties and they obtained but 6 percent of the total mortgage credit extended by this source.

Relatively fewer owner-operated farms in the South had real estate mortgages in 1960 than in the other two areas and the farms that were mortgaged in the South were much larger, compared with unmortgaged owner-operated Southern farms, than was the situation in the North or West. As shown in the following tabulation, mortgaged farms in the South were nearly three-fourths larger than their unmortgaged counterparts, whether the comparison is based on the value of total land operated or on the portion owned by the operator. This was a much greater difference than in the North or in the West. Mortgaged borrowers in the South rented about the same proportion of the land they operated as the unmortgaged owner-operators in that area--each renting about 30 percent. In the North and the West, however, mortgaged owners were heavier renters than were the owners without mortgages. Since renting and borrowing are alternative ways of adding to farm capital, and often accompany each other, these differences of operators in the South from those in the other regions may have indicated that mortgage credit facilities, or the availability of land for leasing, or both, in the South were less adequate than in other areas.

Item	South	North	West	United States
Percentage with major real-estate debt	37	44	49	44
Average value of operated real estate in farms:				
With mortgage	$49,035	$45,794	$90,462	$61,796
Without mortgage	$28,960	$36,608	$75,031	$44,835
Average value of owned real estate in farms:				
With mortgage	$37,695	$33,903	$62,129	$44,392
Without mortgage	$23,986	$29,225	$55,599	$34,875

The tabulation below shows the area variation in the average value of farmland and buildings operated by commercial farmers who borrowed from the important mortgage lenders:

Principal lender	Average value of operated land and buildings on borrower's farm			
	Total	South	North	West
Life insurance companies-----	$96,592	$100,202	$70,699	$141,456
Individual sellers--mortgage-	69,260	59,080	38,074	111,857
Federal land banks-----------	61,054	42,342	42,781	85,444
Individual sellers--land contract---------------------	60,008	76,844	48,901	71,106
Commercial banks-------------	53,540	42,181	40,178	88,650
All mortgaged properties-----	61,796	49,035	45,794	90,462

The average size (value of land and buildings operated) of mortgaged farms of borrowers in the South from each of the lenders was about as large as, or larger than, those in the North, even though farms in the South in general were only about two-thirds as large as those in the North.

Average total debt and mortgage debt of borrowers from the different sources are shown in the last two columns of table 8. Mortgage debts of land-contract borrowers averaged the largest of any lender group, with debts two-thirds larger than the average for all borrowers. Life insurance company borrowers owed loans that were nearly as large as those of the land-contract borrowers. Mortgage loans held by commercial banks,of about $8,000, were the smallest of any lender group; their loans were less than half as large as life insurance company loans, but only about $1,000 less than for Federal land bank borrowers, borrowers from other lending institutions, and from other individuals.

The large size of life insurance company loans is also evidenced by the proportion of their mortgage loans with outstanding balances of $20,000 or more on the date of the survey--69 percent (not shown in the table). A slightly higher proportion--72 percent--of the land-contract debt was in this grouping. The lenders with the smallest proportions of their funds in large loans were commercial banks (37 percent), other individuals (35 percent), and the Farmers Home Administration (30 percent).

The ranking of average debt sizes of borrowers from the different lenders is considerably different from the positions shown by property size and incomes, a situation observed in an earlier part of this report. Life insurance company borrowers had the largest debts and also the largest farms and earned above-average incomes. But the next largest debts were owed by borrowers from individual sellers of farms on land contracts; these borrowers had only about average-size farm properties and incomes. The smallest debts were owed by borrowers from the Federal land banks and from commercial banks, while their farm sizes and incomes were close to the average of all commercial farm operators with major real-estate debt.

Off-Farm Income and Rented Land

In addition to the income earned from farming their own land, many mortgaged farm operators earned income by farming rented land, and by working or otherwise earning income from off-farm sources. Both of these additions to income earned on their own land typically would be expected to allow borrowers to acquire farm assets more rapidly, to repay debts more quickly, or to spend more on family living than would otherwise be the case.

On the average, 28 percent of the value of the land and buildings operated by mortgaged commercial farm operators during 1960 was rented. The rented value averaged $17,404, compared with an owned value of $44,392. All of the rented land, of course, was on the part-owner mortgaged farms; full-owner farms by definition included no rented land. The average value of owned and rented land on mortgaged commercial farms of the different tenures was as follows:

	Number (1,000)	Average per operator		
		Total	Owned	Rented
Full owners	386	$39,961	$39,961	---
Part owners	344	$78,509	$42,798	$35,711
All commercial farms with major real-estate debt 1/	737	$61,796	$44,392	$17,404

1/ Includes a few managed farms not shown separately.

Part owners had properties of slightly larger value than did full owners, but the value of the total land they operated was twice that of full owners. Thus, part owners made up 47 percent of the number of mortgaged commercial farm operators and they owned 49 percent of the value of all farmland and buildings owned by part owners and full owners with mortgage debt. However, when their rented land was considered, part owners operated 63 percent of the value of the real estate on all mortgaged commercial farms.

Mortgaged owners, on the average, rented a higher proportion of the land they farmed than did owners without mortgage debt--28 percent, compared with 22 percent. The use of mortgage credit and the rental of land resources tended to accompany each other. Full tenants, of course, used no mortgage credit.

Borrowers from Federal land banks and FHA rented a smaller proportion of the land they operated than did borrowers from any of the other lender groups (table 9). For the Federal land banks, this reflected a smaller-than-average portion of part owners among their borrowers. A slightly above-average percentage of FHA borrowers were part owners, but these part owners rented relatively smaller portions of the total land they operated than most part owners.

The low amount of rented land is less surprising among land-bank borrowers than among FHA borrowers. The land-bank borrowers owned larger farms and had smaller debts, and were older and longer established in farming. Greater use of rented land might have been expected of the younger, presumably vigorous FHA borrowers, who owned little land, and doubtless had small financial resources.

Table 9.--Off-farm earnings and rental of farmland, by commercial farm operators who borrowed from the different major real-estate lenders, Census Sample Survey, 48 States, December 1960

Principal lender	Off-farm portion of total income	Rented portion of operated land	Amount of off-farm income per farm	Value of rented land and buildings per farm
	Percent	Percent	Dollars	Dollars
Other lending institutions	---	33	---	18,638
Farmers Home Administration	---	22	1,590	8,012
Individual sellers--mortgage	39	32	2,363	22,412
Commercial banks	38	31	2,035	16,730
Other individuals	38	24	1,995	10,587
Life insurance companies	37	30	2,592	28,528
Federal land banks	36	23	2,045	14,191
Individual sellers--land contract	33	27	1,959	16,300
Average	38	28	2,195	17,404

Note: Data may vary slightly from one table to another, or within a table, due to rounding. Dashes indicate inadequate or incomplete data.

Related to the relatively small amount of rented land among FHA mortgage borrowers, was the comparatively small average size of farm (value of land and buildings operated) of these borrowers. For all borrowers with major real-estate debt, including borrowers from FHA and the other sources also, there was a strong relation between the size of farm operated and the percentage of land that was rented. Thus, operators of mortgaged commercial farms with land and buildings valued at less than $25,000 rented only 11 percent of the land they operated; operators of farms with real-estate values of $25,000-$99,999 rented 23 percent of their operated land; while operators of farms of $100,000 or larger rented 33 percent of the value of the land they operated. Apparently the smaller operators were less successful than the larger ones in obtaining land to rent.

Rental percentages for FHA borrowers were similar to the overall average within each size group. In seeking to expand their operations these FHA borrowers used more credit than other borrowers of similar size, but did not rent more land.

Income earned by the mortgaged farm operators or members of their families from sources other than the farms they operated, averaged $2,195 or 38 percent of their total net incomes. This percentage for major real-estate borrowers was about the same as the percentage for farm owners who did not have major real-estate debt.

There may have been some conflict between renting additional land and earning off-farm income--perhaps farmers substitute one for the other. Mortgaged full owners of commercial farms on average earned 43 percent of their total incomes from off-farm sources, while mortgaged part owners earned 34 percent. Both of these figures exclude noncommercial farm operators.

Among the different groups of commercial farm operators who owed mortgage debt, there was--with only a few exceptions--little range in the relative importance of off-farm incomes as a portion of total earnings; most of the borrowing groups were in the 36-39 percent range (table 9).

Number of Years as Operator of Present Farm and Operator's Age

On the average, a borrower from an individual who sold him a farm under a land contract had operated his present place fewer years than had borrowers from any of the other sources, and he was younger than the other borrowers (table 10). 8/ Borrowers from individuals who sold a farm under a mortgage, and borrowers from FHA also averaged younger and had spent fewer years on their present farms than had the borrowers from most other sources. Federal land bank borrowers had the longest average tenure and the highest average age.

The data on age and tenure indicate that the younger, less well-established operators, who tended to have less property and income as security for their loans, made up a much higher proportion of the borrowers from individual sellers of farms, particularly sellers under a land contract, and borrowers from FHA, the loan policies of which are designed to help these groups. Federal land bank borrowers and, to a

8/ Respondents were asked to report the year they first operated "this place" or "any part of this place."

somewhat lesser extent, borrowers from life insurance companies, commercial banks, and "other individuals" were older and longer established in farming.

Table 10.--Length of tenure of borrower, and borrower's age, by principal lender, commercial farms, Census Sample Survey, 48 States, December 1960

Principal lender	Average number of years as operator of farm	Average age of operator 1/
	Years	Years
Individual sellers--land contract	10	42
Individual sellers--mortgage	12	44
Farmers Home Administration	13	43
Other lending institutions	14	46
Life insurance companies	14	50
Commercial banks	15	48
Other individuals	16	48
Federal land banks	17	51
Operators with mortgage debt, average	14	47

1/ Figures are for operators reporting their ages. Not all respondents gave their ages.

RELATIVE INDEBTEDNESS OF BORROWERS

The differences among the major real-estate credit sources were never more clearly evident than when the relative amounts of their borrowers' debts were compared. The outstanding debts of borrowers from some lenders--whether measured against the borrower's income, or the value of his farmland and buildings--were only about half as large as the average indebtedness of the borrowers from some of the other sources.

In the first part of this section, there are shown some overall comparisons based on all of the farm mortgage loans held by each creditor. In the next part, the proportion of each lender's loans in each of three ratio groupings of debt-to-land values is discussed, together with characteristics of the loans and the borrowers in each grouping. Finally, the various debt ratios for the different lenders are compared for borrowers who are of similar ages, or who have operated their present farms a similar number of years.

It would be desirable, if it were possible, to compare the amounts each of the different creditors had been lending on transactions completed just before the survey, rather than looking at each lender's total mortgage loan portfolio at that time. By doing this, the comparisons would not be influenced by whether the loans in one lender's portfolio had been made more recently than those of another. The loans that had been most recently, of course, would not have been repaid very much; similarly, the property values on which the loans were originally based would not have had time to appreciate very much, or the borrower's income to change much. But in a lender's total loan portfolio, the varying average ages of loans held by the different lenders may make the debt ratios less meaningful.

In the first two parts of this section no account is taken of the varying ages of the loans held by the different lenders. This shortcoming probably does not distort the comparisons much, except in the case of borrowers from individuals on land-purchase contracts. Credit under land-purchase contracts has apparently become increasingly popular in recent years, and has grown at a more rapid rate than loans from other lenders. As a result, the average age of loans from individuals under a land-purchase contract is probably less than that of loans held by other lenders, and the debt ratios would tend to be higher for this reason alone. These considerations probably would not appreciably influence the comparisons among other lenders.

When the borrower's age or his length of occupancy on his present farm is taken in account, comparisons among the lenders can be made with little or no distortion. Borrowers of similar ages, or of similar years of occupancy on their present farms, would usually have acquired their mortgages at about the same time. Thus, they would have paid on their loans a similar number of years, their property values might have appreciated similarly since the date the loans were made, and their incomes might have improved in similar proportions.

In real-estate lending, the most commonly used measure of relative indebtedness is the amount of mortgage debt in relation to the value of land and buildings securing the debt. The survey on which this report is based provided information on the total value of all of the land personally operated and owned by the farmers. This value is usually the same as the value of the property securing the mortgage debt. However, in the event the operator owned (and operated) some land that was not used as security for the debt, the survey obtained the total value of his land rather than the value of securing the debt.

In addition to the debt-value ratios, the survey data provided a number of other measures of indebtedness. One measure to be shown here is the relation of the borrower's total debt to the value of all the land and buildings he farmed, including any rented land. Two comparisons with incomes are made: One shows the relationship of non-real-estate debt to net cash income earned from the farm in 1960, and the other compares total debt with total net cash income earned by the operator and his family from off-farm as well as farm sources. This latter measure permits off-farm earnings to be considered when appraising relative indebtedness. All three measures permit some consideration to be given to the often sizable land resources that are rented by some part-owner operators. Finally, by looking at the borrower's non-real-estate debt separately from his major real-estate debt, a somewhat independent measure of his indebtedness is obtained.

The eight lenders fell into three fairly well-defined groups (table 11). Lenders who on the survey data were owed the largest amounts, in terms of the comparison standards, were the individual sellers of farms under land contracts and FHA. At the other extreme--lenders whose

Table 11.--Measures of the relative indebtedness of borrowers who were financed by different major real-estate lenders, commercial farms, Census Sample Survey, 48 States, December 1960

Principal lender	Ratio of--1/ Total major real-estate debt to value of land and buildings owned	Total debt to value of land and buildings operated	Total debt to total net cash income	Total non-real-estate debt to net cash farm income
	Percent	Percent	Percent	Percent
Individual sellers--land contract	45	42	425	143
Farmers Home Administration	41	41	---	---
Other individuals	29	30	254	107
Life insurance companies	28	27	374	163
Individual sellers--mortgage	28	26	302	139
Other lending institutions	27	26	189	110
Commercial banks	23	21	212	80
Federal land banks	19	22	228	110
Average, all lenders	27	26	282	121

1/ The ratios shown are based on the amount of debt of the particular type outstanding on the date of the survey, and on the value of the land and buildings owned or operated on that date, and on income earned during the calendar year 1960. The "average age" of the different groups of mortgage loans would vary and this would influence the amount that had been repaid by 1960; similarly, changes in real-estate prices and in farm incomes would probably have occurred since the date the loan was originally made or last refinanced. Thus, the ratios shown should be thought of as indicating the general position of each lender in relation to that of the other lenders, rather than necessarily reflecting lending policies current in 1960.

outstanding loans were the smallest by these standards--were commercial banks and Federal land banks. Between the two extremes were life insurance companies, other lending institutions, and two groups of individuals--sellers of farms under a mortgage, and other individuals who were not sellers of farms.

This three-way grouping of lenders is clearly evident in the first and second columns of table 11. If only the third and fourth columns (the comparisons of debts and income) are considered, there could be some modest shifting of positions; the life insurance borrowers would be up nearer to the land-contract borrowers, and the borrowers from other individuals and from other lending institutions would move down. These shifts would be somewhat related; insurance company borrowers operate large farms on which the net income tends to be smaller than average in relation to the value of the land and buildings operated; the opposite is true for borrowers from other individuals with their below-average-size farms. In this three-way arrangement of lenders, all noninstitutional sources (the three groups of individuals) were either in the first or the second grouping. All institutional lenders (except FHA) were in the second or the third grouping.

Many of the loans of the institutional lenders were made to borrowers who were financed initially by individuals. Individuals, especially sellers under a land contract, thus provide much of the "high-risk" mortgage financing of agriculture.

The considerable diversity among the three groups of individual lenders is of interest. Individuals who sold their properties under terms of a land contract were by all odds most willing to lend the largest amount in relation to property values or incomes. Individual sellers under a mortgage and individuals who provided mortgage finance not tied to the sale of a farm they owned loaned smaller but relatively similar amounts. However, since other individuals financed properties that were of small average size, they probably served a substantially different market than did the sellers of farms under a mortgage.

Some of the difference in lending ratios among the three groups of individuals appears to be due to the relatively recent emergence of land-contract financing in real-estate transfers. Land-contract usage has apparently become increasingly popular in recent years, so probably more land-contract debt is of recent origin than is the case for either of the two other individual credit sources. 9/

It appears that whatever the influences that result in the high ratios prevailing in land-contract sales, similar influences do not exist when the property is sold under mortgage. It may be that some selection occurs, and that only those properties in which the sale would not be made unless high debt-to-value financing were provided, are sold under a land-contract arrangement. Other properties may be sold under seller mortgage or perhaps financed by an institutional lender.

The ratio of major real-estate debt to value of land and buildings owned in column 1 of table 11 refers to the total major real-estate debt owed by the borrower, including any amount he may have owed to some lender other than his principal lender. Since these latter debts are not so

---

9/ See figure 3, which groups together mortgages of more or less similar ages.

clearly associated with, or even the responsibility of, the principal creditor, it is desirable to show the ratios of mortgage debt to land value, restricting the mortgage debt to that amount owed the principal lender. The comparative figures are shown below:

Principal lender	Ratio of all major real-estate debt to value of land and buildings owned	Ratio of major real-estate debt owed to principal lender to value of land and buildings owned	Ratio of major real-estate debt owed to principal lender to all major real-estate debt
	Percent	Percent	Percent
Individual sellers--land contract	45	43	96
Farmers Home Administration	41	39	94
Other individuals	29	27	94
Life insurance companies	28	27	96
Individual sellers--mortgage	28	27	95
Other lending institutions	27	24	89
Commercial banks	23	22	93
Federal land banks	1/19	1/19	97
Average, all lenders	27	26	95

1/ The unrounded figure for the left column is 19.4 percent and for the middle column 18.8 percent.

As the above tabulation shows, it makes little difference whether the borrower's total real-estate debt or the real-estate debt he owed to his principal source was considered--the relative indebtedness appeared about the same. This was because the proportion of the borrower's total real-estate debt that he owed to his principal lender did not vary greatly among the borrowing groups. The proportion ranged only from 89 percent to 97 percent.

Mortgage Borrowers in Three Indebtedness Groups

Borrowers whose total mortgage debts are equal to 50 percent or more of the market value of all the land and buildings they own are usually considered to have heavy mortgage debts. Most institutional lenders are reluctant to make many loans as large as this. As shown in table 12, the proportion of all their borrowers who owed debts equal to one-half or more of the value of the borrower's owned land and buildings varied from 8 percent for the Federal land banks to 49 percent for borrowers from individuals under land contracts.

A variety of data about the distributions and characteristics of borrowers, loans, landownership, and related information in each of three indebtedness groupings are presented in tables 12, 13, and 14. These data give an alternative view to that shown in table 11 which provided only average indebtedness of the borrowers from each lender, and also did not show the variety of data that are in these tables.

Table 12 shows that only 14 percent (by value) of the operator-owned land in mortgaged commercial farms on the date of the survey carried real-estate indebtedness equal to 50 percent or more of the value of the land. Since approximately half of the operator-owned land on the Nation's commercial farms was not mortgaged at all, this means that only 7 percent of all farmland and buildings owned by commercial farm operators in December 1960 had mortgage debt equal to half or more of its value. However, 38 percent of the total major real-estate debt was on these farms.

The proportion of each lender's total major real-estate loans that was owed by operators of these "heavily indebted" farms varied greatly among lenders, as did the numbers of borrowers. Thus, only 14 percent of the total loans of the Federal land banks was associated with a debt-to-value ratio of 50 percent or more on the date of the survey. In contrast, of the total debt owed to individual sellers of farms under a land contract, 70 percent was in the 50-percent-and-higher group. This was about twice as large a proportion as that of any of the institutional lenders, except FHA, at 59 percent.

Many of the heavily indebted farmers were younger and had not operated their present farms very long (table 13). The average age of the most heavily indebted group, 42 years, was 7 years younger than the average of the other two groups. Similarly, the average time the borrowers in the group had operated their present farms was 10 years, 6 years less than the average of the two less heavily indebted groups. 10/

Despite these lower average ages and lengths of occupancy, it would be wrong to suppose that all of the younger and beginning operators had heavy debts; or that there were not appreciable numbers of longer established or older farmers who had relatively large debts. The tabulation on the following page shows the relative mortgage indebtedness of commercial farm operators according to the number of years they had operated the farm on which they were living in 1960 (operators with no mortgage debts are excluded).

10/ The date the borrower first operated his present (1960) farm is interpreted in this report to be a general indication of the year he acquired his mortgage.

Number of years as operator of farm	Number of farm operators	All	Ratio of major real-estate debt to value of land and buildings owned: 50 percent or more	20 to 49 percent	Under 20 percent
	Thousands	Percent	Percent	Percent	Percent
Under 5 years	128	100	44	42	14
5 to 14 years	287	100	24	45	31
15 years and over	317	100	12	42	46
All 1/	737	100	22	43	35

1/ Includes 5,000 operators not reporting year. Figures may vary slightly from one table to another, or within a table, due to rounding.

Typically, the farm operators with the heavier debts had smaller properties and they rented a higher proportion of the land they operated regardless of the number of years they had occupied their farms. The fact that both credit and rental of resources were used so much indicated that many of them were seeking to adjust or improve their farming operations.

Borrowers in the 50-percent-and-over mortgage debt-to-value group owned 59 percent of the value of the farmland and buildings they operated; in contrast, borrowers in the 20-to-49-percent grouping owned 72 percent of the land they operated, and those in the under 20-percent group owned 77 percent. The tendency to rent more land as indebtedness increased was much less pronounced for FHA borrowers than for borrowers from the other lenders.

For every lender group, borrowers with the heaviest debt operated properties of smaller average value than did borrowers with lighter debts (table 13). These heavily indebted farmers, however, had total incomes that were not much below those of operators with smaller debts on the larger, higher valued farms.

The non-real-estate debts of the borrowers with the highest mortgage-debt ratios were not relatively as large as their mortgage debts. The ratio of non-real-estate debt to cash farm income for the heavily indebted group was no higher than for the middle indebtedness group (table 14). A smaller part of the total debt of the heavily indebted group was non-real-estate debt than was true of the borrowers in the other indebtedness groups. Ordinarily, with a higher percentage of rented land, one would expect more of the total debt to be represented by non-real-estate debt than if less land were rented. The greater dependence of this group on mortgage debt probably indicated that both lenders and borrowers took into account an individual's total debt, not just his debts of a particular type in making loans; and that there was some effort to compensate for relatively high mortgage indebtedness by using somewhat less of the other credit. Possibly, larger parts of the real-estate-secured debt of these borrowers were used for financing non-real-estate investments than is usual. Many of this group had probably stretched their total credit about as far as they could, and consequently were required by lenders to secure the largest possible percentage of it

Table 12.--Proportions of borrowers of farm-mortgage loans, and of owned land in 3 debt-to-value groups, commercial farms with major real-estate debt, Census Sample Survey, 48 States, December 1960

Ratio of borrower's major real-estate debt to value of land and buildings owned by borrower	Principal lender: Individual sellers--land contract	Farmers Home Administration	Other individuals	Life insurance companies	Individual sellers--mortgage	Other lending institutions	Commercial banks	Federal land banks	All major real-estate lenders
	Percentage distribution of number of borrowers								
Under 20 percent---	21	15	28	32	25	33	42	46	35
20 to 49 percent---	31	42	44	54	43	42	39	47	43
50 percent and over--------------	49	43	28	16	31	25	19	8	22
All borrowers-	100	100	100	100	100	100	100	100	100
	Percentage distribution of the dollar amount of major real-estate debt owed to principal lender								
Under 20 percent---	7	6	12	16	12	20	20	25	16
20 to 49 percent---	23	35	44	56	45	44	44	61	46
50 percent and over--------------	70	59	44	27	43	36	35	14	38
All borrowers-	100	100	100	100	100	100	100	100	100
	Percentage distribution of value of land and buildings owned								
Under 20 percent---	28	25	47	39	42	50	54	56	46
20 to 49 percent---	31	44	37	49	40	38	34	40	40
50 percent and over--------------	41	32	16	12	19	12	11	4	14
All borrowers-	100	100	100	100	100	100	100	100	100

Note: Data may vary slightly from one table to another, or within a table, due to rounding.

Table 13.--Age, income, and other characteristics of borrowers in 3 debt-to-value groups, commercial farms with major real-estate debt, Census Sample Survey, 48 States, December 1960

Ratio of borrower's major real-estate debt to value of land and buildings owned by borrower	Principal lender: Individual sellers--land contract	Farmers Home Administration	Other individuals	Life insurance companies	Individual sellers--mortgage	Other lending institutions	Commercial banks	Federal land banks	All major real-estate lenders
	Average age of operator (years)								
Under 20 percent	46	47	50	53	50	49	51	52	51
20 to 49 percent	43	44	51	47	43	46	48	50	47
50 percent and over	39	41	40	50	39	42	45	46	42
All borrowers	42	43	48	50	44	46	48	51	47
	Average number of years operator had operated this place								
Under 20 percent	16	18	21	17	18	17	18	19	18
20 to 49 percent	11	12	17	13	11	13	15	16	14
50 percent and over	6	11	8	13	8	11	11	14	10
All borrowers	10	13	16	14	12	14	15	17	14
	Percent of operated land that is owned								
Under 20 percent	84	81	86	70	75	73	75	81	77
20 to 49 percent	72	78	72	74	66	77	70	74	72
50 percent and over	68	76	64	61	58	39	47	61	59
All borrowers	73	78	76	70	68	67	69	77	72
	Average value of land and buildings operated (dollars)								
Under 20 percent	70,927	55,731	63,930	124,891	101,085	80,497	63,673	71,037	77,272
20 to 49 percent	60,641	39,087	40,213	84,148	64,893	45,165	46,121	54,200	56,701
50 percent and over	55,035	27,146	31,346	83,504	48,884	44,458	46,526	42,476	47,785
All borrowers	60,008	36,433	44,681	96,592	69,260	56,386	53,540	61,054	61,796
	Average total net cash income per farm, including off-farm income (dollars)								
Under 20 percent	7,107	---	---	6,764	6,002	---	5,371	6,482	6,068
20 to 49 percent	6,317	---	5,445	7,070	6,641	---	5,381	5,213	5,795
50 percent and over	5,253	---	4,558	7,293	5,309	---	5,109	4,725	5,296
All borrowers	5,961	---	5,225	7,011	6,066	---	5,325	5,758	5,777

Note: Data may vary slightly from one table to another, or within a table, due to rounding. Dashes indicate inadequate or incomplete data.

Table 14.--Relative indebtedness of borrowers in 3 debt-to-value groups, commercial farms with major real-estate debt, Census Sample Survey, 48 States, December 1960

Ratio of borrower's major real-estate debt to value of land and buildings owned by borrower	Principal lender: Individual sellers--land contract	Farmers Home Administration	Other individuals	Life insurance companies	Individual sellers--mortgage	Other lending institutions	Commercial banks	Federal land banks	All major real-estate lenders
	Ratio of major real-estate debt owed to principal lender to value of land and buildings owned								
Under 20 percent------------	11	9	7	11	8	10	8	8	9
20 to 49 percent------------	32	31	32	31	30	28	28	29	30
50 percent and over---------	73	72	74	63	62	72	68	65	68
Total------------------	43	39	27	27	27	24	22	19	26
	Ratio of non-real-estate debt to net cash farm income								
Under 20 percent------------	135	---	117	112	135	127	78	83	99
20 to 49 percent------------	172	---	89	195	130	95	74	131	135
50 percent and over---------	130	---	134	166	157	108	98	181	132
Total------------------	143	---	107	163	139	110	80	110	121
	Ratio of major real-estate debt to total debt								
Under 20 percent------------	52	59	55	66	51	53	62	60	59
20 to 49 percent------------	69	70	75	71	74	77	80	72	73
50 percent and over---------	85	85	80	82	78	79	84	77	82
Total------------------	77	77	74	72	72	72	77	69	73
	Ratio of total debt to total net cash income								
Under 20 percent------------	185	---	130	227	197	183	121	128	151
20 to 49 percent------------	336	---	250	400	276	166	229	315	303
50 percent and over---------	630	---	422	554	448	236	385	479	468
Total------------------	425	---	254	374	302	189	212	228	282

Note: Data may vary slightly from one table to another, or within a table, due to rounding. Dashes indicate inadequate or incomplete data.

with real estate. Possibly, also, because they may have used so much of their resources to buy land, some of these heavily indebted operators may have found it necessary to unduly curtail their non-real-estate expenditures.

These data indicate the need to consider the total indebtedness of a mortgage borrower in relation to both his land holdings and his income, rather than just relating the amount of the mortgage debt to the value of the land and buildings securing the debt. This view is needed to see whether debts may be building up to a high level on particular farms, and also to see whether operators with relatively large real-estate debts may be hampered by inadequate credit of other types. These considerations might influence a farm operator, or a person contemplating farming, in deciding whether to rent land or to buy it under a mortgage.

Debt Ratios and Other Comparisons by Age, and by Years as Operator of Present Farm

Because of the effect on the borrower's indebtedness of his age and the number of years he has managed his present farm, these aspects are now considered in greater detail. 11/ An operator's age and the number of years he has operated his farm are usually closely related. Probably, many operators occupy the same farm their entire working life; some, particularly tenants, at times move from one farm to another. Some owners or part-owners, like tenants, as their resources and inclinations permit, enlarge their holdings by moving to another farm; however, many purchase or rent additional acreages to add to their initial units.

Generally, the years of youth, and the beginning of occupancy on their farms, are the times when operators are seeking land and other farming resources most strongly. They often rent all or part of the land they operate; they seek the lenders they think will lend them the most; and frequently they borrow the maximum this lender will lend them. 12/

To whom did the young borrowers seeking mortgage credit turn for their mortgage financing and on what kind of terms were they able to borrow?

By far the largest source of their borrowing was individuals who had sold them a farm under a land contract (fig. 2). The next largest source was individuals from whom the young farmer had purchased a farm under a mortgage. Together these two individual sources furnished about one-half of the total mortgage credit owed by young farm operators. Other individuals and FHA together supplied about one-seventh, while commercial banks, the Federal land banks, and the life insurance companies provided two-sevenths.

11/ Many other factors influence debt ratios, such as type of farm, size of farm, and others. These attributes usually seemed to have less influence on debt ratios than did the borrower's age or his years on his present farm.

12/ For a discussion of younger farmers and their debts see Garlock, Fred L. Our Younger Farmers--Their Status in Agriculture. Agr. Finance Rev. Vol. 25, pp.45-51. Aug. 1964.

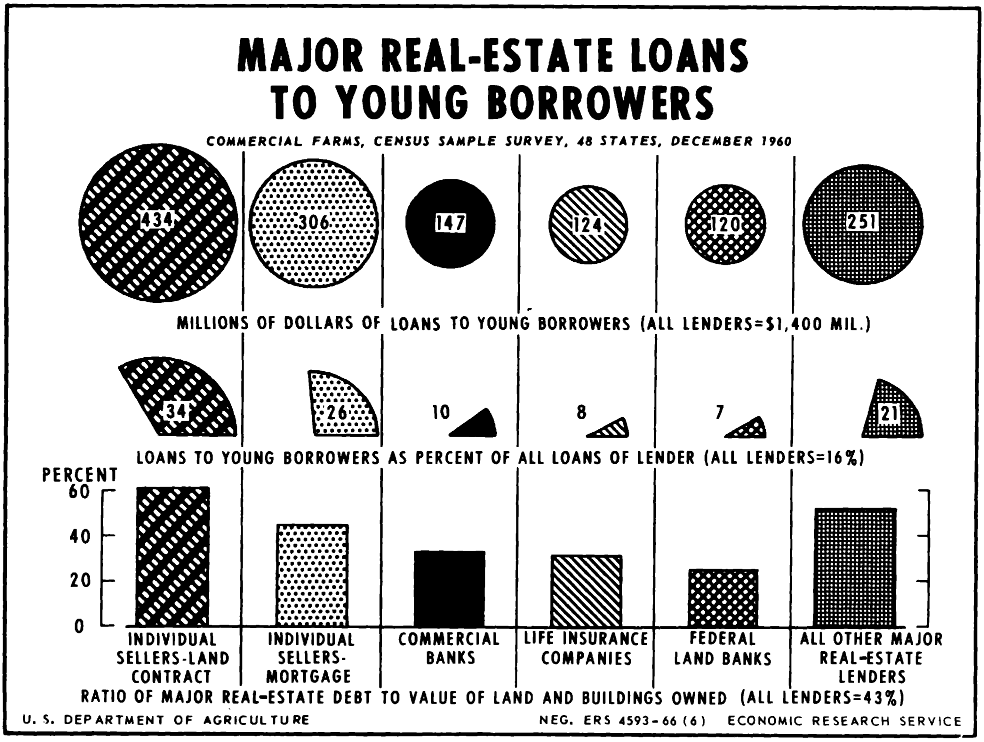

Figure 2

In contrast, farmers 35 years or older on the survey date owed 25 percent of their total major real-estate debt to individual sellers of farms, but 64 percent to commercial banks, the Federal land banks, and insurance companies.

As shown in figure 2, 34 percent of the total dollar volume of loans outstanding from individual sellers under a land contract was to commercial farm operators under 35 years of age. These percentages ranged downward to 7 and 8 percent for borrowers from the insurance companies and the Federal land banks. The "all other" groups shown at the right of the chart were somewhat like individual sellers under a mortgage in the proportion of total loans to young operators and in the debt-value ratios. All three of the lenders in this latter group--Farmers Home Administration, other individuals, and other lending institutions--had higher than average percentages of their loans with young operators.

Probably, many of these young borrowers will later refinance their present mortgage loan with a loan from one of the financial institutions. Both the Federal land banks and the life insurance companies refinance a substantial volume of loans made initially by some other lenders. Commercial banks do some refinancing, but probably less than these two agencies.

There was a marked relation between the debt-value ratios, shown in the bottom part of figure 2, and the relative importance of the various lenders among the young borrowers. With only minor exceptions, the higher the ratios of mortgage debt to value of the land and buildings owned, the greater was the proportion of the lender's loans to young borrowers.

The importance of the "individual sellers" under a mortgage group among young borrowers is a little difficult to understand, since the lending ratios of this group are not nearly as high as those of individual sellers under a land contract (fig. 2). The ratios are higher, however, than those of most of the other lender sources other than the land-contract sellers, and these higher ratios may be sufficient to give such loans a considerable appeal to young operators who have some resources but not enough to enable them to obtain financing under the terms of most of the institutional lenders.

The loans made to borrowers who began operation of their present (1960) farms in the 5-year period immediately preceding the survey, like loans to young borrowers, provided a fairly good indication of the current lending ratios of the different lenders (fig. 3, a and b). On the other hand, the relationships for borrowers who in 1960 had lived on their present farms quite a few years usually would differ considerably from the relationships at the time they obtained their loans. The loan might have been repaid as much as 5 to 10 percent a year, and on the average, land values have been rising more than 5 percent a year. Average incomes per farm have also been increasing, and they may have been increasing more rapidly on the indebted farms than on other farms. All of these influences would reduce the debt ratios except when they were offset by refinancing.

The variations in policies among the lenders are strikingly evident in their loans to borrowers in similar years-of-occupancy groups (fig. 3). The lender pattern is similar to that observed for young borrowers. Individual sellers, especially sellers under a land contract, provide the largest loans in relation to the comparison standards.

The total debt-to-income measures show more or less the same picture as property value, except that the range from low to high is a little less. The smaller range is probably largely the result of two conditions observed earlier in comparing relative indebtedness. First, the most heavily indebted borrowers rent more land than the less heavily indebted. The income from this rented land adds to their total income, but the rented land does not show up in the ratio of major real-estate debt to owned land. Second, the more heavily mortgage-indebted operators are not indebted as heavily on their non-real-estate debt.

The progressively smaller level of debt in relation to the value of the owned land, as the length of tenure increases, is clearly shown in figure 3 for all lenders. But, there is a considerable difference between debts held by institutional lenders, and debts held by individuals.

As noted earlier, the ratios prevailing at a particular time, or for any particular groups of borrowers, reflect a variety of influences--especially the period the loans have been outstanding, rates of repayments, and changes in land values. But, in addition to the contrast between the institutional lenders and the noninstitutional lenders in the relative amounts loaned, there are also contrasting practices with regard to refinancing of loans. The Federal land banks and the life insurance companies, and to some extent commercial banks, do "internal refinancing"--they refinance loans of their own borrowers as part of the process of extending new credit to these borrowers. Also they do "external" refinancing--extending credit to borrowers from other sources to permit them to retire their debt to these sources, and perhaps also to make new investments. The relatively slow decline in the debt-to-value ratios for the life insurance companies and the land banks (and for commercial banks to a lesser extent) appears to be partly explained by this refinancing of many of their own borrowers, thus increasing the relative indebtedness of these borrowers above what it would have been if no refinancing had been done. Similarly, when the borrower being refinanced had previously been indebted to another lender, he now becomes a borrower from the institution doing the refinancing, and typically with a higher debt ratio than for many of the other borrowers from this institution in the same years-on-farm group. Individuals, in contrast, almost universally would not be expected to refinance any of their loans; if the borrower wanted to refinance, as many would, he would refinance with one of the institutional lenders. Thus, the few remaining loans held by individuals for borrowers who had occupied their farms for many years would be expected generally to be smaller than loans made more recently; these loans would not have been rewritten and increased in relative amount by refinancing.

This shifting in sources of credit probably permits many beginning farmers to become established in farming who otherwise would not be able to do so.

"ONE-STOP" CREDIT USED BY MAJOR REAL-ESTATE BORROWERS

Major Real-Estate Credit

In recent years, some efforts have been made to encourage farm borrowers to obtain all of their financing from a single source. This type of borrowing, in which a single source provides both the long-term and the short- and intermediate-term credit used by a farm operator, has certain advantages over the splitting of borrowing among two or more sources. The cost of making and servicing loans is frequently less in this type of borrowing, and greater confidence and closer working relations between borrower and lender may make each more responsive to the other's needs, and lead to better credit use. A somewhat more restricted, but more commonly used, type of one-stop borrowing or lending is for one lender to supply all of the borrower's short- or intermediate-term financing while another lender supplies all of his long-term financing.

Most farm lenders specialize in supplying either long-term or short- and intermediate-term credit, not both. Only two of the institutional lenders--banks and the Farmers Home Administration--provide both real-estate and non-real-estate credit. To some extent, major real-estate borrowers from the Federal land banks are encouraged to obtain their non-real-estate credit from production credit associations; and some commercial banks and insurance companies cooperate in extending, respectively, non-real-estate and real-estate credit to farmers--both examples of a form of one-stop credit.

Despite minor limitations, the survey data permitted for the first time, on an overall basis, an analysis of the extent to which farm borrowers in 1960 were utilizing a single source for their financing needs. Since most lenders specialize in only one type of credit, the present study is concerned mainly with the extent to which borrowers depended on a single source for their farm real-estate financing.

The data in the tabulation on page 26 showing the proportion of mortgage debt supplied by the principal mortgage lender also can be used

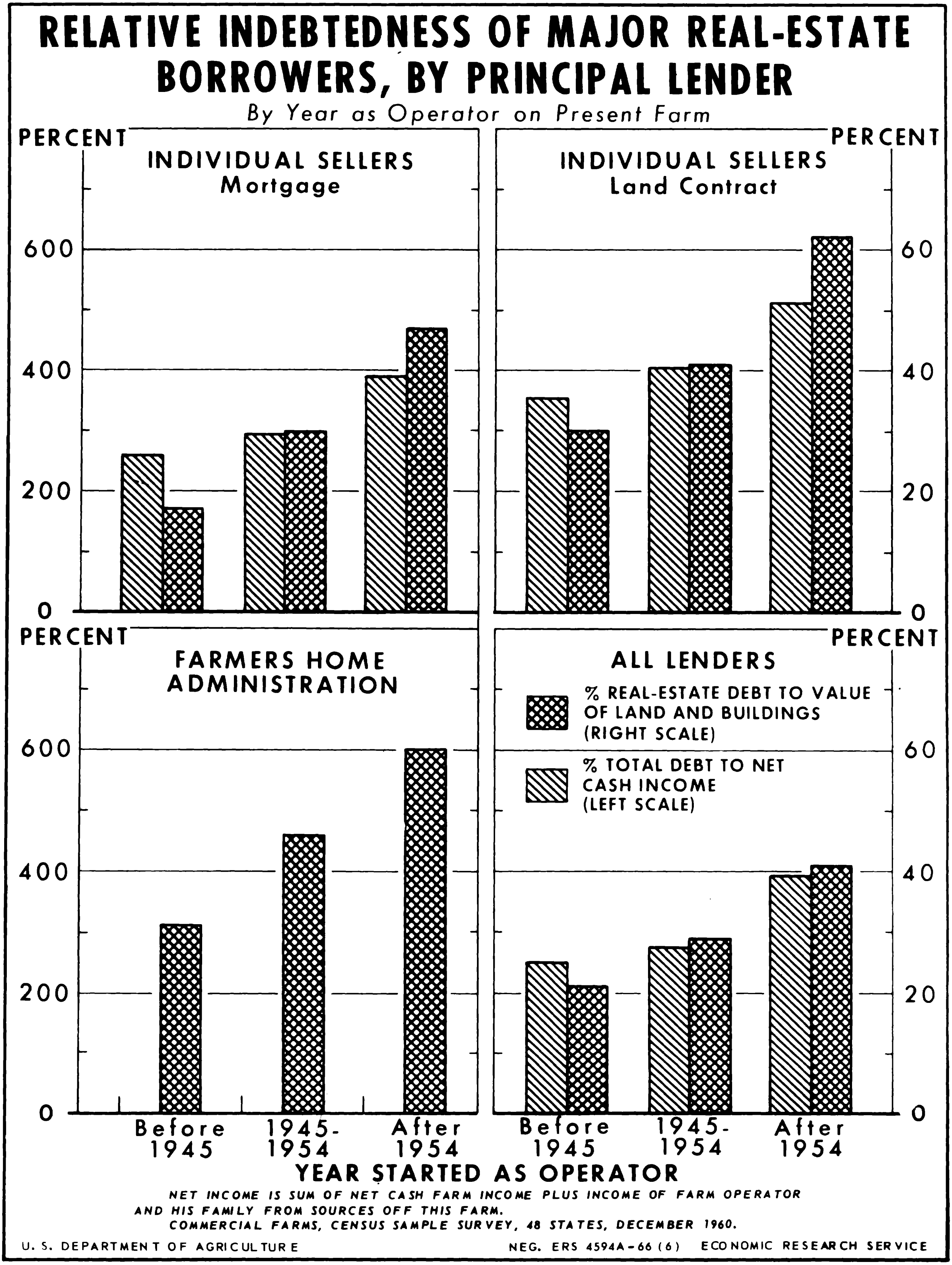
RELATIVE INDEBTEDNESS OF MAJOR REAL-ESTATE BORROWERS, BY PRINCIPAL LENDER
By Year as Operator on Present Farm
PERCENT
INDIVIDUAL SELLERS
Mortgage
INDIVIDUAL SELLERS
Land Contract
FARMERS HOME ADMINISTRATION
ALL LENDERS
% REAL-ESTATE DEBT TO VALUE OF LAND AND BUILDINGS (RIGHT SCALE)
% TOTAL DEBT TO NET CASH INCOME (LEFT SCALE)
0
200
400
600
20
40
60
Before 1945
1945-1954
After 1954
YEAR STARTED AS OPERATOR
NET INCOME IS SUM OF NET CASH FARM INCOME PLUS INCOME OF FARM OPERATOR AND HIS FAMILY FROM SOURCES OFF THIS FARM.
COMMERCIAL FARMS, CENSUS SAMPLE SURVEY, 48 STATES, DECEMBER 1960.
U. S. DEPARTMENT OF AGRICULTURE
NEG. ERS 4594A-66 (6)
ECONOMIC RESEARCH SERVICE

Figure 3a

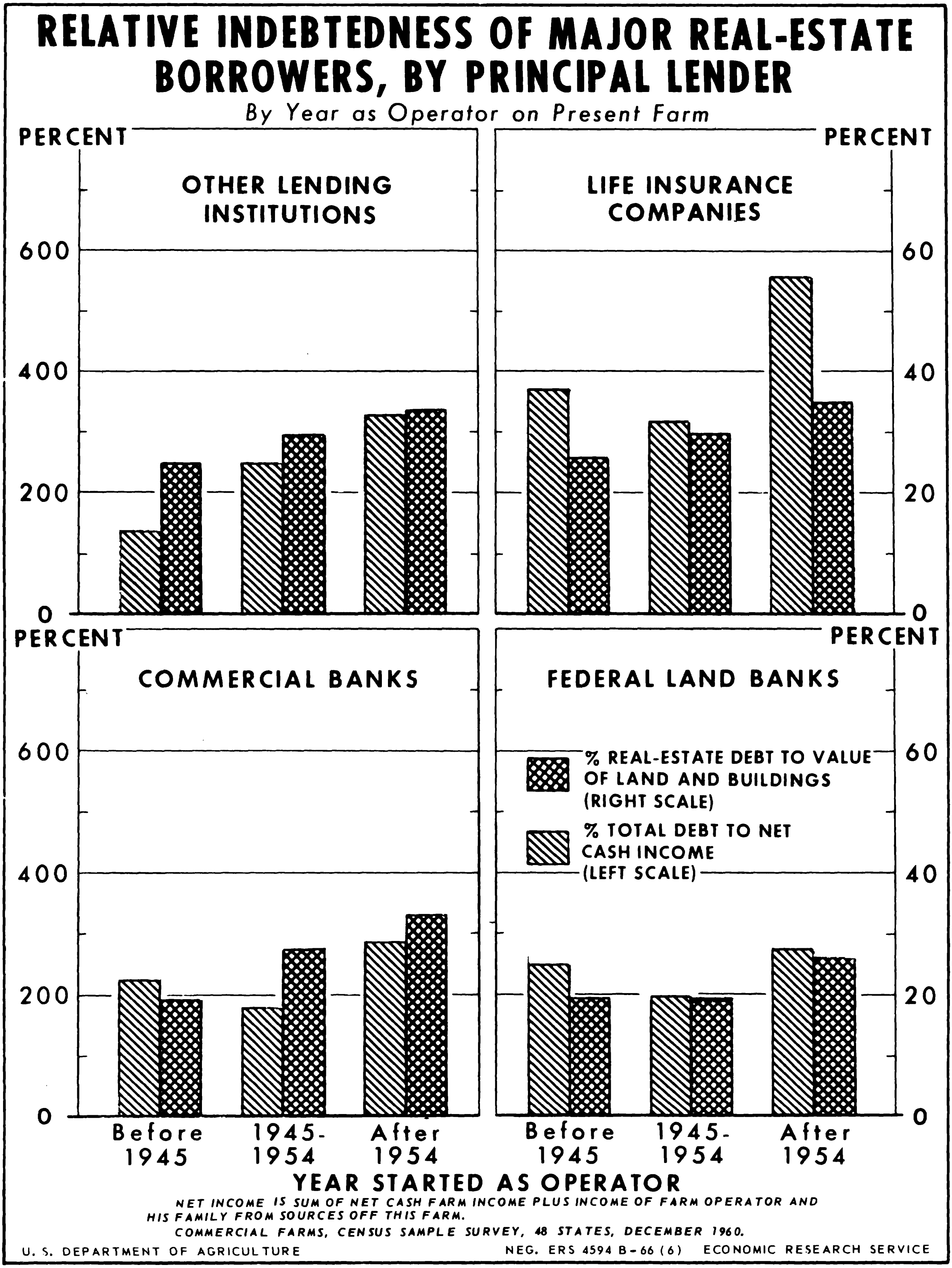
RELATIVE INDEBTEDNESS OF MAJOR REAL-ESTATE BORROWERS, BY PRINCIPAL LENDER
By Year as Operator on Present Farm
PERCENT
PERCENT
OTHER LENDING INSTITUTIONS
LIFE INSURANCE COMPANIES
COMMERCIAL BANKS
FEDERAL LAND BANKS
600
400
200
0
60
40
20
0
% REAL-ESTATE DEBT TO VALUE OF LAND AND BUILDINGS (RIGHT SCALE)
% TOTAL DEBT TO NET CASH INCOME (LEFT SCALE)
Before 1945
1945-1954
After 1954
YEAR STARTED AS OPERATOR
NET INCOME IS SUM OF NET CASH FARM INCOME PLUS INCOME OF FARM OPERATOR AND HIS FAMILY FROM SOURCES OFF THIS FARM.
COMMERCIAL FARMS, CENSUS SAMPLE SURVEY, 48 STATES, DECEMBER 1960.
U. S. DEPARTMENT OF AGRICULTURE
NEG. ERS 4594 B-66 (6)
ECONOMIC RESEARCH SERVICE

Figure 3b

to indicate the extent of one-stop borrowing among mortgage lenders. It is apparent that most of the major real-estate credit was obtained from one source--on the average, 95 percent was from the borrower's chief supplier. Intra-lender differences were small; for example, individual lenders were similar to institutional lenders and were not at all supplementary or subsidiary sources. 13/

These data indicate that the majority of farm borrowers with major real-estate debt had one mortgage; or if they had more than one mortgage, all of the mortgages were held by the same lender source. Considering the extent of farm enlargement purchases of land in recent years, and particularly the growth in the financing of these and other purchases by land contracts, this seems to be a favorable situation. Probably not many borrowers had second mortgages which are often an indication of high risk, and are costly. What probably has been happening in some of the farm enlargement purchases of recent years is that if the buyer had an existing mortgage loan (and sufficient equity) he has refinanced the loan, either with the same lender or a different lender, into a new and larger loan using the additional funds to finance part or all of the new purchase.

However, it is obvious that many farm operators acquiring farms or parts of farms did not have existing indebtedness at the time of buying and concurrently assuming a mortgage debt obligation. Or, if they already owned some farmland, it must have been owned clear of mortgage debt. This is indicated by the fact that purchaser-borrowers from individuals selling farms under a land contract owed very little mortgage debt other than that owed under the land contract (as shown in the tabulation on page 26, only 4 percent of their total mortgage debt). A seller under a land contract would seldom if ever provide funds for the refinancing of any existing indebtedness of the purchaser; the existing indebtedness would thus not be extinguished. Similarly, individuals selling farms under a mortgage, or "other" individuals, in the great majority of cases would not provide for refinancing any previous indebtedness of the buyer. It may be, also, that some of these purchasers from individuals were beginning farmers who owned no land before this first purchase.

In summary, it can be said that one-stop credit was usual among major real-estate borrowers. The small extent of multiple-stop borrowing may have represented mainly acquisition of additional properties by established farmers who already owed a mortgage debt that they did not refinance at the time they purchased additional land.

13/ A minor limitation of the survey data in indicating the extent of one-stop borrowing was that all of the debts of a borrower to a particular lender group were reported in a single entry, even if the borrower owed more than one individual lender within the broad group. Thus, for example, a borrower's debt to commercial banks--if owed to, say, three commercial banks--was reported in a single consolidated figure under "commercial and savings banks." To the extent that more than one bank was involved in the lending, this would of course not be one-stop credit as it is usually defined. Another limitation was that, because of the way "major real-estate debt" was defined in tabulating the survey data, the extent of one-stop mortgage borrowing was slightly overstated and the extent of one-stop non-real-estate borrowing was slightly understated.

Sources of Non-Real-Estate Credit of Farm-Mortgage Borrowers

About two-thirds of the commercial farm operators with major real-estate debt also owed non-real-estate debt (table 15). A slightly smaller proportion of farm-mortgage borrowers from commercial banks, other individuals, and other institutions had accompanying non-real-estate debt than was the situation for the other borrower groups. From what sources did the borrowers from the farm-mortgage sources obtain their non-real-estate credit?

Commercial banks and merchants and dealers served larger numbers of farm-mortgage borrowers than did the other lenders (table 15). Merchants and dealers were a slightly more common credit source among mortgage borrowers than were commercial banks. In terms of the dollar amounts of loans supplied by each source, however, banks provided 39 percent of the total, merchants and dealers 21 percent, and the production credit associations 17 percent. (Dollar amounts and percentages are shown in table 1, page 2.) 14/

It is perhaps surprising, as shown in table 15, that merchants and dealers are such popular sources of non-real-estate credit to real-estate borrowers from commercial banks. Merchants and dealers were the source of the largest non-real-estate loans to 55 percent of the banks' real-estate borrowers (excluding borrowers with no non-real-estate loans), a much higher proportion than that of any other lender. This high proportion seems unusual since commercial banks are better equipped than most lenders to handle the rather modest-size "convenience" type of credit that characterize some merchant and dealer debts.

Not many borrowers used commercial banks for their source of both non-real-estate credit and real-estate credit--only 15 percent, or less than half the average frequency of banks as a non-real-estate credit source. Possibly, banks infrequently supplied both types of credit to farmers because of legal limitations on the amounts that a bank can loan to one individual. Banks of small or medium size sometimes find that their customers desire larger loans than the bank has authority to make.

14/ The figures in table 1 refer to all non-real-estate loans rather than to the "largest" non-real-estate loans owed by the borrowers. This consideration, however, does not influence the comparisons very much. Of the non-real-estate debt owed by all borrowers, about 85 percent was owed on the "largest" non-real-estate debt.

☆U. S. GOVERNMENT PRINTING OFFICE : 1966 253-491/25

Table 15.--Relation of major real-estate credit source to non-real-estate credit source, commercial farms, Census Sample Survey, 48 States, December 1960

Principal major real-estate lender	Number of borrowers with--: Major real-estate debt	Major real-estate debt and--: No non-real-estate debt	Major real-estate debt and--: Non-real-estate debt (total)	Largest non-real-estate debt owed to--: Commercial banks	Merchants and dealers	Production credit associations	Other individuals	Other lending institutions	Other source or sources not identified 1/
	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Federal land banks	186	58	128	47	35	27	8	5	6
Commercial banks	177	69	108	16	60	9	6	6	11
Individual sellers--mortgage	95	27	68	23	23	8	6	5	3
Life insurance companies	89	25	64	28	17	12	3	3	1
Individual sellers--land-contract	68	14	54	24	11	8	5	---	6
Farmers Home Administration	53	15	38	14	14	---	---	---	10
Other lending institutions	36	13	23	9	9	---	---	---	5
Other individuals	32	12	20	7	5	---	---	---	8
Total	736	233	503	168	174	64	28	19	50

Principal major real-estate lender	Selected percentages: Percentage of all major real-estate borrowers who have non-real-estate debt	Percentage of all major real-estate borrowers with non-real-estate debt by source of largest non-real-estate debt: Total	Commercial banks	Merchants and dealers	Production credit associations	Other individuals	Other lending institutions	Other source or sources not identified 1/
	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent
Federal land banks	69	100	37	27	21	6	4	5
Commercial banks	61	100	15	55	8	6	6	10
Individual sellers--mortgage	72	100	34	34	12	9	7	4
Life insurance companies	72	100	43	27	19	5	5	1
Individual sellers--land contract	79	100	45	20	15	9	---	11
Farmers Home Administration	72	100	37	37	---	---	---	26
Other lending institutions	64	100	39	39	---	---	---	22
Other individuals	63	100	35	25	---	---	---	40
Total	68	100	33	35	13	5	4	10
All non-real-estate borrowers (including those with no farm-mortgage debt)	---	100	36	32	11	10	5	7

1/ In addition to including borrowers from unspecified sources, these percentages include borrowers with debts owed to the listed lenders, but for which the sample size was inadequate to permit showing separate figures.

Note: Data may vary slightly from one table to another, and parts may not add to totals due to rounding.